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ZNR UUUUU ZZH
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FM AMEMBASSY TEGUCIGALPA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 1419
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEHRC/DEPT OF AGRICULTURE USD WASHDC PRIORITY

UNCLAS TEGUCIGALPA 000007

SENSITIVE
SIPDIS

DEPARTMENT PLEASE PASS TO USTR

E.O. 12958: N/A

TAGS: [ECON](#) [EAGR](#) [ENRG](#) [ETRD](#) [HO](#)

SUBJECT: SUGAR ASSOCIATION SEEKS CHANGE IN U.S. SUGAR QUOTA

REF: A. 09 STATE 106302

[1](#)B. 09 TEGUCIGALPA 289

[1](#)C. 09 STATE 31013

[1](#)1. (U) Summary: In a meeting with economic officers, a representative of the Honduran Sugar Producers Association expressed deep concern over a recent reduction of import quotas by USTR, and said that the association will seek to correct data from the Honduran de facto government that was used to determine these figures. The sugar association representative also provided information about the economic and environmental impact of the industry. End summary.

CONCERNS ABOUT SUGAR QUOTA

[1](#)2. (SBU) After receiving notification from the office of the U.S. Trade Representative (USTR) that the aggregate quantity of sugar products that may be entered duty-free from Honduras would be reduced by 2,477 metric tons from what was expected for 2010, Carlos Melara, Executive Director of the Honduras Sugar Producers Association, requested a meeting with Embassy officers. In the December 23 meeting, Melara told Econ Counselor, Econ Officer, and U.S. Department of Agriculture (USDA) assistant that the negotiated CAFTA-DR quota was for 8,640 metric tons, but that the trade surplus, calculated using figures from the Honduran Central Bank, was 6,163 metric tons. The sugar association representative expressed surprise that USTR uses the lesser of the two figures, and more importantly, skepticism about the validity of the numbers cited. Melara said that the Central Bank often publishes preliminary data from the previous year, and that this is likely where the information that was used to determine the net surplus came from. He asserted that figures from the sugar association or from USDA would have been more accurate. Melara said that he had raised his concerns with USTR.

BACKGROUND ON SUGAR INDUSTRY

[1](#)3. (U) Melara provided an overview of Honduras's sugar industry, stressing its importance within the Honduran agricultural sector. Sixty-eight percent of the sugar produced is sold locally. Selling through commodity traders as raw sugar and molasses, 5 percent of Honduran sugar products are exported to the U.S., with the rest being sold on the world market. With half of the cane coming from independent growers, and the other half coming from plantations run by the sugar mills, approximately 200,000 workers depend directly or indirectly on sugar production. While the Honduran sugar industry currently enjoys success in domestic and foreign markets, its share of the market is

small compared to other CAFTA-DR countries such as the Dominican Republic and Guatemala.

¶4. (U) Melara said that sugar producers have been working to increase social responsibility within the industry. This has included bearing the expense to fortify local sugar with vitamin A, participating in nutrition campaigns, and striving to eliminate child labor. In addition, all sugar workers are paid above the minimum wage. The larger mills are unionized. When the minimum wage was increased 60 percent early in 2009, there were no resulting layoffs, as other industries experienced.

¶5. (U) Melara noted that environmental concerns and local regulations prohibit burning cane fields as part of the harvest near airports and population centers. These and a few other fields are cut mechanically. While only 15 percent of the cane is currently harvested this way, the percentage may increase as more equipment is purchased and as growers find that the improved practices which allow them to avoid burning fields can also increase yields.

¶6. (U) Melara added that the environmental impact of the sugar industry can also be seen in renewable energy projects. Some of the large sugar mills are also big producers of energy, generating a total of 120 megawatts from biogas. The mills use approximately 40 percent of this electricity and sell the rest to the grid. On the other hand, ethanol projects that were in the planning stages prior to the June 28 coup have been put on hold mostly for financial reasons. Lower gasoline prices in 2009 from 2008 diminished the urgency for alternative fuels. At the same time, high prices for sugar have outpaced the expected return on producing ethanol. (Note: A recent Bloomberg survey anticipates another rise in prices as supplies tighten in the first half of 2010. End note.) Melara attributed much of the rise in prices to increasing demand in India and China. He said that prices are expected to drop in 2011 due to a planned increase in production in Brazil, the world's largest sugar producer.

¶7. (SBU) Comment: We will provide updated sales figures as soon as they are made available by the Central Bank.
LLORENS